

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 OPIC-03 EB-08 COME-00 TRSE-00 OMB-01  
AGRE-00 AID-05 STR-07 SP-02 L-03 CIAE-00 INR-10  
NSAE-00 EUR-12 /062 W  
-----002537 270634Z /11  
R 241007Z MAR 78  
FM AMEMBASSY KIGALI  
TO SECSTATE WASHDC 5943

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FOR OPIC AND AF/C FROM AMBASSADOR

E.O. 11652: N/A  
TAGS: EFIN  
SUBJECT: TEA PROJECT

SUMMARY: RWANDAN BID TO REVISE MARKETING ARRANGEMENT WITH SIRT (WHICH THEY HAVE PROMISED TO POSTPONE UNTIL WERTHEIM ARRIVES) AIMS AT OBLIGING SIRT TO MAKE GOOD ON BOAST THAT IT COULD SELL TEA AT BETTER PRICES THROUGH PRIVATE CONTACTS THAN OCIR ITSELF GETS AT AUCTION. ITS EFFECT WOULD PROBABLY BE THE OPPOSITE, SINCE UNDER CURRENT MARKET CONDITIONS PRIVATE BUYERS ARE UNLIKELY TO OFFER PRICES SATISFACTORY TO OCIR. MEANWHILE STRAINS BETWEEN WERTHEIM AND ARCHER THREATEN TO COMPLICATE SIRT OPERATIONS EVEN MORE. SINCE THIS IS BASICALLY DISPUTE BETWEEN JOINT VENTURE PARTNERS, AND SINCE IT FAR FROM CLEAR THAT FAULT LIES ENTIRELY ON RWANDAN SIDE, I RECOMMEND USG TAKE NO ACTION UNTIL WERTHEIM HAS HAD CHANCE TO WORK OUT PROBLEM ON THE SPOT. END SUMMARY.

1. REFTTEL, RECEIVED HERE MARCH 23, WAS FIRST WE KNEW OF OCIR PROPOSAL TO AMEND MARKETING CONTRACT WITH SIRT. CONTACTED ARCHER IMMEDIATELY, WHO PROVIDED COPY OF LETTER  
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AND REVISED CONTRACT (BEING POUCHED AF/C) PLUS FOLLOWING INFO:

A. OCIR AND BNR (PARTICULARLY LATTER) HAVE BEEN UNHAPPY FOR SOME TIME AT RESULTS TO DATE OF MARKETING ARRANGEMENT WITH SIRT. UNHAPPINESS BASED ON WERTHEIM'S EARLIER CLAIMS THAT SIRT WOULD GET BETTER PRICE FOR

MULINDI/PFUNDA TEAS THAN OCIR COULD, THANKS TO WERTHEIM'S KNOWLEDGE OF TEA MARKET AND CONTACTS WITH PRIVATE BUYERS. TO DATE, HOWEVER, SIRT HAS NOT RPT NOT SUCCEEDED IN BETTERING PRICE WHICH OCIR OBTAINS, FOR REASONS DISCUSSED BELOW, AND RWANDANS OBJECT THAT MARKETING ARRANGEMENT IS MERELY TURNING OUT TO BE OCIR SUBSIDY TO SIRT OF TWO PERCENT ON SALES THEY COULD HAVE MADE FOR THEMSELVES.

B. PROPOSED AMENDMENT TO MARKETING AGREEMENT, PUT FORWARD AT INSTANCE OF NATIONAL BANK NOT OCIR, WOULD HAVZ EFFECT OF OBLIGING SIRT TO SELL TO PRIVATE BUYERS RATHER THAN SIMPLY PLACE TEA ON LONDON OR MOMBASA AUCTION, ON ASSUMPTION THESE BUYERS WILL PAY HIGHER PRICES PROMISED BY WERTHEIM. WOULD ALSO LIMIT AMOUNT OF TEA RELEASABLE TO SIRT AT ONE TIME TO 200 TONS, PENDING SALE OF AT LEAST 80 PERCENT OF PREVIOUS LOT -- AGAIN, TO EXERT FURTHER CONTROL ON SIRT MARKETING OPZRATIONS AND ENSURE IT SEEKS OUT AND OBTAINS HIGHER PRICES FROM PRIVATE BUYERS.

C. WHAT OCIR/BNR FAIL TO UNDERSTAND, SAYS ARCHER, IS PECULIAR CHARACTER LONDON MARKET PAST FEW MONTHS, WHERE EXTRAORDINARILY HIGH PRICES BEING PAID FOR "SPOT" TEA (I.E.MN THAT IMMEDIATELY AVAILABLE IN LONDON). WHEN SIRT OBTAINS OFFER FOB MOMBASA FOR RWANDAN TEA, BNR COMPARES OFFERING PRICE TO CURRENT "SPOT" TEA PRICE LONDON MARKET AND FINDS IT COMPARES UNFAVORABLY; IT THEREFORE LIMITED OFFICIAL USE

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VETOES SALE, WHICH OBLIGES SIRT TO SELL AT AUCTION JUST AS OCIR DOES (AND FOR SAME PRICE). IF BNR UNDERSTOOD UNUSUAL CHARACTER OF PRESENT LONDON MARKET, IT WOULD RECOGNIZE THAT PRIVATE OFFERS OBTAINED BY SIRT WERE IN FACT ADVANTAGEOUS, SAYS ARCHER, AS PRESENT LONDON PRICE WILL ALMOST SURELY DROP.

D. AT SAME TIME, SIRT HAS RUN INTO GREATER DIFFICULTY THAN EXPECTED IN ESTABLISHING NEW MARKETING TIES WITH PRIVATE BUYERS. PROBLEMS HAVE MAINLY TO DO WITH RWANDA'S REMOTENESS, DIFFICULTIES OF COMMUNICATION, TRANSPORT UNCERTAINTIES, OBSTACLES TO PENETRATING NEW MARKETS IN MIDDLE EAST, ETC. GIVEN THESE DIFFICULTIES, IT HAS OFTEN MADE MORE SENSE TO ARCHER TO SELL TEA VIA LONDON OR MOMBASA BROKERS, JUST AS OCIR ITSELF DOES. MARKETING REVISION WOULD OBLIGE SIRT TO PURSUE PRIVATE BUYERS DESPITE THESE OBSTACLES.

NOTE BY OC/T: MESSAGE DELAYED IN TRANSMISSION.

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E. IN SUM, SAYS ARCHER, OCIR/BNR WANT SIRT TO MAKE GOOD ON BOAST THAT IT CAN GET MORE FOR RWANDA TEA ABROAD THAN OCIR ITSELF CAN, BUT THEY HAVE TIED SIRT'S HANDS IN DOING SO: SIRT CANNOT SELL AT AUCTION EVEN WHEN IT MAKES SENSE, SIRT CAN ONLY SELL AT PRICES WHICH BNR COMPARES UNFAIRLY TO LONDON MARKET, AND SIRT CAN ONLY HAVE 200 TONS AT A TIME TO SELL. ARCHER SAYS ONLY WAY SIRT CAN COMPLY IS IF TEA IMPORTERS (WERTHEIM) WILL BUY ALL SIRT TEA ITSELF, WHICH HE SUSPECTS IS WHAT OCIR/BNR REALLY WANT.

2. BEFORE OFFERING ADVICE AND COMMENTS AS REQUESTED REFTEL, I MUST MENTION ANOTHER FACTOR TO BE TAKEN INTO ACCOUNT (BUT NOT RPT NOT TO BE DISCUSSED WITH WERTHEIM): RELATIONS BETWEEN WERTHEIM AND ARCHER. I WAS NOT AWARE UNTIL YESTERDAY'S CONVERSATION THAT THESE HAD DETERIORATED, TO POINT WHERE ARCHER PROTESTS HE IS BEING USED AS MERE MESSENGER BOY. IT IS NOT BY ACCIDENT THAT ARCHER WILL DEPART ON LEAVE BEFORE WERTHEIM ARRIVES KIGALI APRIL 8.

3. MOREOVER, ARCHER HIMSELF BETRAYS SERIOUS MISGIVINGS AT MANNER IN WHICH SIRT HAS HANDLED MARKETING ARRANGEMENT. HE SAYS MUCH TOO MUCH ATTENTION HAS BEEN GIVEN TO AN OPERATION WHICH AT BEST NETS SIRT ONLY ABOUT  
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500,000 RWF PER MONTH -- CERTAINLY A DROP IN BUCKET IN TERMS OF MEETING ADDED PHASE II CONSTRUCTION COSTS

DESCRIBED PARA THREE REFTEL. ARCHER CALLS MARKETING AGREEMENT "RED HERRING."

4. FINALLY, ARCHER ADVISES ME HE HAS PERSUADED RIBANJE NOT TO PROCEED ON NEW MARKETING ARRANGEMENT UNTIL WERTHEIM ARRIVES AND HAS HAD CHANCE TO DISCUSS. RIBANJE HAS PROMISED THAT OLD CONDITIONS WILL CONTINUE TO GOVERN TEA SALES IN INTERIM.

5. THUS MY ADVICE AND COMMENTS: LET'S NOT BE HASTY TO ASSUME THAT RWANDANS ARE OUT TO TORPEDO US INVESTMENT, OR THAT FAULT LIES ALL ON ONE SIDE IN THIS JOINT VENTURE. CLEARLY, RWANDAN MISUNDERSTANDING OF COMPLEX TEA MARKET HAS NOT MADE IT EASY FOR SIRT TO CARRY OUT ITS COMMITMENT; LESS CLEAR, HOWEVER, IS WHETHER SIRT HAS DONE BEST POSSIBLE JOB WITHIN THESE CONSTRAINTS OR HAS DONE ALL IT COULD TO ENLIGHTEN AND PERSUADE RWANDAN PARTNERS. AS I HAVE SO OFTEN ARGUED BEFORE, THIS IS A BUSINESS DEAL BETWEEN PRIVATE AMERICAN AND GOR WHICH ONLY THOSE TWO PARTIES THEMSELVES CAN MAKE TO WORK. MUCH THAT GOES ON INSIDE CANNOT AND WILL NOT BE KNOWN TO EMBASSY OR OPIC. WE SHOULD THEREFORE MAKE EVERY EFFORT TO ENCOURAGE PARTIES TO WORK OUT THEIR DISAGREEMENTS THEMSELVES AND MAKE PROJECT A SUCCESS, BUT WE MUST RESIST TEMPTATION TO WADE IN WITH ILL-INFORMED JUDGMENTS OF OUR OWN AND TRY TO FORCE A SOLUTION.

6. MOREOVER, IN LIGHT OF CURRENT STRAINS WITHIN SIRT ITSELF, AS WELL AS RIBANJE'S PROMISE TO CONTINUE PRESENT ARRANGEMENT UNTIL WERTHEIM ARRIVZS, I BELIEVE IT IS DOUBLY IMPORTANT WE PLAY IT COOL. SENSIBLE WAY TO PRO-

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CEED, I BELIEVZ, IS TO SEE FIRST WHETHER WERTHEIM CAN STRAIGHTEN OUT RELATIONS WITH HIS BUSINESS PARTNERS WITHOUT OUR INTERVENTION. IF RWANDAN POSTURE STILL APPEARS TO "CALL INTO QUESTION GOR ACCEPTANCE OF BASIC OBJECTIVE OF US INVESTOR AND LENDERS," THEN IT WILL BE TIME TO CONSIDER WHETHER WE SHOULD WITHHOLD REMAINING OPIC/IFC FUNDS AND TRY TO FORCE RWANDANS BACK INTO LINE. CRIGLER

NOTE BY OC/T: MESSAGE DELAYED IN TRANSMISSION.

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## Message Attributes

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